

Living paycheck to paycheck? Worried about debt collectors? Can't seem to develop a workable budget, let alone save money for retirement? If this sounds familiar, you may want to consider the services of a credit counseling agency. Usually nonprofit, these agencies work with you to solve your financial problems — sometimes for free. Credit counseling agencies may offer educational materials and workshops, or help you develop a budget.

Many agencies offer services nationwide through local offices or the Internet. Look under "credit counseling" in your telephone directory or your Internet search engine.

HOW CREDIT COUNSELING WORKS

When you meet with a credit counselor, you'll be asked to provide information about your income, expenses, and debts. After analyzing and discussing this information with you, your counselor may recommend that you:

- Continue to handle your finances on your own.
- Participate in agency education classes.
- Enroll in a debt-management/repayment plan.
- Be referred to another organization for assistance.

If you decide to enroll in the debt-management/repayment plan, you will be asked to stop using your credit cards or incurring debt. The counseling agency will negotiate a repayment schedule with your creditors that will generally allow you to get out of debt in two to five years. You'll make one monthly payment to the agency, which will then pay your creditors.

If you are concerned about the effect that credit counseling may have on your credit history, talk to your counselor about it. Some lenders may bring your account current and report it as being paid on time, as long as you stick with the program. Others may report that your account is being repaid through credit counseling or may even report your account as delinquent, both of which can look negative to future creditors. The fact that you met with a credit counselor will never appear on your credit report if you just get budgeting advice and do not choose to enter the debt management plan.

What you shouldn't expect from a debt counselor is legal advice or detailed advice about filing for bankruptcy. For these, you should talk with an attorney.

DEBT REPAYMENT PLANS

If your financial difficulties arise from too much debt or an inability to repay your debts, a credit counseling agency may

work out a debt repayment plan for you. In these plans, you deposit money each month with the credit counseling agency. Your deposits are used to pay your creditors according to a payment schedule the counselor develops with you.

As part of the repayment plan, you may have to agree not to apply for — or use — any additional credit while you're participating in the program. A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Some credit counseling agencies charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time.

A debt repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. A bankruptcy can stay on your report for ten years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments have been missed, or that there are write-offs or other concessions. But a demonstrated pattern of timely payments should help you get credit in the future.

Your debts are either secured or unsecured. Secured debts usually are tied to an asset, like your car for a car loan, or your house for a mortgage. If you stop making payments, the lender can repossess your car or foreclose on your house. Unsecured debts are not tied to any asset. Examples include most credit card debt, bills for medical care, signature loans and debts for other types of services. Debt repayment plans usually cover only your unsecured debt. If your secured debts are not included in the plan, you must continue to make payments to these creditors directly.

CHOOSING AN AGENCY: QUESTIONS TO ASK

If you want to work with a credit counseling agency, interview several. Here are some questions to ask. Check with your state Attorney General, local consumer protection agency and the Better Business Bureau to find out if consumers have filed complaints about the provider you are considering. Any reputable credit counseling agency should send you free information about itself and the services it provides without requiring you to provide any details about your situation. If not, consider that a red flag and go elsewhere for help.

Services and Fees...

- What services do you offer?
- Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?
- In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?
- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What's the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?
- How soon can you take my case?
- Who regulates, oversees and/or licenses your agency? Is your agency audited?
- Will I work with one counselor or several?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- What assurance do I have that information about me (including my address and phone number) will be kept confidential?

Repayment Plan...

- How much do I have to owe to use your services?
- How do you determine the amount of my payment? What happens if this is more than I can afford?
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put in a separate account from operating funds?
- How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- Is a debt repayment plan my only option?
- What if I can't maintain the agreed-upon plan?
- What debts will be excluded from the debt repayment plan?
- Will you help me plan for payment of these debts?
- Who will help me if I have problems with my accounts or creditors?
- How secure is the information I provide to you?

DEPARTMENT OF FINANCIAL INSTITUTIONS

The Department of Financial Institutions regulates Budget Service Companies. These companies perform the same as credit counselors plus they set up a budget with the consumer to pay them each month. The Budget Service Company then makes arrangements with the debtor's creditors and pays them out of the monthly payment amounts received from the debtor. A fee is imposed for that service not to exceed 15% of the amount the debtor agrees to pay through the Budget Service Company. There is a cancellation fee allowed up to \$100.

FOR MORE INFORMATION

The U.S. Consumer Information Center distributes a variety of brochures on credit related issues. To request a Consumer Information Catalog listing these publications, visit the web site at www.pueblo.gsa.gov, call 719-948-4000 or write R. Woods, CIC—8C, PO Box 100, Pueblo, CO 81002.

Your local Cooperative Extension Service office conducts educational programs on credit-related issues and produces a variety of educational materials. Check your local government listings in the phone book for the office nearest you or check the Internet at www.money2000.org.

FTC online complaint form:

<http://www.ftc.gov/bcp/online/complaint.htm>

Although the FTC cannot resolve individual problems for consumer, it can act against a company if it sees a pattern of possible law violations.

<http://www.getoutofdebt.com/Myvesta.org> is a web site with more information on debt problems.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Auto Leasing
Auto Service Contracts
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



CHOOSING A CREDIT COUNSELOR



DEPARTMENT OF FINANCIAL INSTITUTIONS

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